

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 /098 W

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R 180957Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7333

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 04491

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMANY, THE SNAKE, AND PRESS SPECULATION
REGARDING DEUTSCHEMARK REVALUATION

1. IN DISCUSSION WITH OFFICE DIRECTOR LEVEL OFFICIALS
AT THE FRG FINANCE MINISTRY, WE WERE TOLD THAT IN
LAST SUNDAY'S MEETING IN BRUSSELS FINANCE MINISTER APEL
WAS EMPOWERED TO RAISE THE GERMAN OFFER TO REVALUE THE
DM BEYOND THE EARLIER REPORTED 2 PERCENT, BUT ONLY UNDER
A SPECIFIC CONDITION, NAMELY, THAT THE FRENCH AGREE TO
A "SIMULTANEOUS ASYMMETRIC" DEVALUATION. WHILE THE
EXACT UPPER LEVEL OF THE POSSIBLE GERMAN OFFER IS NOT
KNOWN OUTSIDE A VERY TIGHT CIRCLE, THE WILLINGNESS OF
THE GERMANS TO ELEVATE THEIR OFFER BECAME A MOOT ISSUE
WHEN, IN ADDITION TO THE REFUSAL OF THE OTHER SNAKE
MEMBERS TO AGREE TO A REALIGNMENT, THE FRENCH STOOD
HARD BEHIND THEIR OWN SYMMETRIC 3 PERCENT--3 PERCENT
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PROPOSAL.

2. WE WERE FURTHER TOLD THAT THE ENTIRE PUBLIC DISCUSSION REGARDING GERMAN WILLINGNESS TO REVALUE (SEE BONN 4301) DEVELOPED FROM A SLIP OF THE TONGUE DURING A PRESS CONFERENCE BY APEL IN BRUSSELS. THE UTTERANCE, IT WAS SAID, SENT SHUDDERS UP AND DOWN THE BUREAUCRACY AND HAS LED TO PERSISTENT PRESS SPECULATION THAT THE DM COULD STILL BE REVALUED. GOVERNMENT SPOKESMAN GRUENEWALD IN A STATEMENT ISSUED WEDNESDAY EVENING SAID THE GERMAN GOVERNMENT SEES NO NECESSITY TO REVALUE THE DM DESPITE THE CURRENT SPECULATIVE WAVE. ADDITIONALLY, BUNDESBANK VICE PRESIDENT EMMINGER IS REPORTED TO HAVE FIRMLY REJECTED A POSSIBLE DM REVALUATION OR A GERMAN DEPARTURE FROM THE SNAKE.

3. IN AN HOUR LONG PARLIAMENTARY DEBATE ATTENDED BY APEL, POEHL AND ECONOMICS MINISTER FRIDERICH, CALLED ESPECIALLY TO DISCUSS THE EVENTS SURROUNDING THE FRENCH DEPARTURE FROM THE JOINT FLOAT, BOTH MINISTERS REPEATEDLY ASSURED THE LOWER HOUSE REPRESENTATIVES THAT THE FRENCH DECISION AND THE SUBSEQUENT DE FACTO FRANC DEVALUATION SHOULD NOT SIGNIFICANTLY REDUCE GERMAN EXPORTS OR THREATEN THE GERMAN RECOVERY. OUR MINISTRY CONTACTS CAUTIONED THAT NO ULTIMATE DECISIONS HAVE BEEN MADE REGARDING THE DM, AND THAT THE PUBLIC STATEMENTS ABOUT THE RESILIENCE OF GERMAN EXPORTS AND FIRMNESS OF THE DOMESTIC UPSWING ARE DEFINITELY CALCULATED TO AMELIORATE THE POLITICAL STRAIN WHICH A POSSIBLE REVALUATION WOULD GENERATE. AFTER THE PARLIAMENTARY DEBATE LATE WEDNESDAY AFTERNOON, BOTH APEL AND FRIDERICH MET PRIVATELY WITH THE SPD/FDP MEMBERS OF THE BUNDESTAG'S FINANCE COMMITTEE. WITH SPECULATION BUILDING UP AGAINST

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----- 063722

R 180957Z MAR 76

FM AMEMBASSY BONN

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 04491

THE BELGIAN FRANC AND THE DANISH KRONE THERE WAS AN OPENLY STATED ATMOSPHERE OF PESSIMISM ("WIR SEHEN SCHWARZ") WITHIN THE FINANCE MINISTRY REGARDING THE DURABILITY OF THE SNAKE. ONE OF THE ABOVE-MENTIONED CONTINGENCIES--ACTUALLY A HOPE--IS THAT CONSULTATIONS WITH THE BELGIANS AND DANES AND THE EFFECTS OF THEIR RESPECTIVE INCREASES IN DISCOUNT RATES WILL PERMIT THE ANIMAL TO MAKE IT THROUGH THE WEEKEND AFTER WHICH IT IS EXPECTED THAT THE SPECULATION WAIVE WILL TEND TO UNWIND ITSELF. QUOTING ONE CONTACT, "SHOULD THE SNAKE FALL APART, WE SHOULD BE VERY THANKFUL THAT WE CAN BUILD ON THE SPIRIT OF CONSULTATION OF RAMBOUILLET."

4. THE MARKET ON MARCH 17. THE GERMAN FOREIGN EXCHANGE MARKETS WERE DESCRIBED AS "NEAR CHAOTIC". AS DURING THE DAY BEFORE, THERE WAS HEAVY PRESSURE ON THE BELGIAN FRANC AND DANISH KRONE, BOTH OF CONFIDENTIAL

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WHICH REMAIN AT THEIR LOWER INTERVENTION POINTS IN FRANKFURT. THE BUNDESBANK WAS REPORTED TO HAVE SUPPORTED BOTH CURRENCIES WITH PURCHASES OF BFR 66 MILLION AND DKR 3.1 MILLION AT THE FIXING. THE DUTCH GUILDER ALSO WEAKENED SIGNIFICANTLY, TO AROUND A HALF PERCENT ABOVE ITS LOWER INTERVENTION POINT. THE STRONGEST DROP IN FRANKFURT OCCURRED WITH THE LIRA WHICH WAS FIXED AT DM 2.89 PER 1000 LIRA FOLLOWING DM 3.03 ON TUESDAY--AN APPROXIMATE 5 PERCENT FALL. THE BRITISH POUND ALSO REACHED A NEW LOW WHEN IT WAS FIXED AT DM 4.897 PER POUND FOLLOWING DM 4.925 ON MARCH 16. THE SITUATION SURROUNDING THE FRENCH FRANC WAS DESCRIBED AS CALMING DOWN

SOMEWHAT. THE DOLLAR WAS FIXED AT 2.5568 WITH
REPORTED BUNDESBANK PURCHASES OF \$18.2 MILLION.
HILLENBRAND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, ECONOMIC CONDITIONS, MEETINGS, DEVALUATIONS, MARK(CURRENCY), FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Draft Date: 18 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BONN04491
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760102-0453
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760348/aaaabqdz.tel
Line Count: 172
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2004 by CollinP0>; APPROVED <28 JUL 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GERMANY, THE SNAKE, AND PRESS SPECULATION REGARDING DEUTSCHEMARK REVALUATION
TAGS: EFIN, GE, SNAKE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006